

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 L-03 H-02 NSC-05 SS-15

STR-04 CEA-01 PA-01 PRS-01 DHA-02 IO-13 /100 W

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R 012213Z DEC 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 2398

C O N F I D E N T I A L QUITO 8422

JOINT EMBASSY/USAID MESSAGE

E.O. 11652: GDS

TAGS: PFOR, EC, EAID, ECON

SUBJECT: CONSULTATIVE GROUP PROPOSAL

REF: QUITO 8423

1. SUMMARY. THE GOE HAS RECENTLY ASKED THE WORLD BANK TO LEAD A CONSULTATIVE GROUP TO COORDINATE AND RATIONALIZE DEVELOPMENT ASSISTANCE. THIS MISSION REGARDS THIS STEP AS ENCOURAGING RECOGNITION BY THE GOE THAT IT NEED TO HAVE EXTERNAL ASSISTANCE ORCHESTRATED BY A COMPETENT EXTERNAL AUTHORITY, AND RECOMMENDS USG SUPPORT OF THE ESTABLISHMENT OF SUCH A CONSULTATIVE GROUP. END SUMMARY.

2. DEVELOPMENT OF THE ECONOMIC POTENTIAL OF THE COUNTRY RANKS WITH PROTECTION OF NATIONAL TERRITORIAL CLAIMS AS THE HIGHEST GOAL OF ECUADOREAN GOVERNMENTS. THIS DOES NOT MEAN THAT NATIONAL PRIDE AND INTEGRITY WILL BE COMPROMISED TO ACHIEVE THE GROWTH GOAL; IT IS A LONG-TERM ASPIRATION AND MINOR SLOWDOWNS ARE TOLERATED. BUT ALL GROUPS IN THE POLITICAL AND SOCIAL SPECTRUM ARE COMMITTED TO THE ECONOMIC DEVELOPMENT OF THE NATION. THUS,  
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THE POLITICAL PROCESS IN ECUADOR WILL BE SHAPED IN LARGE

MEASURE BY THE PROGRESS OR LACK THEREOF BY THE GOE IN SOLVING THE COUNTRY'S PRESSING DEVELOPMENT PROBLEMS. ECUADOR'S SCARCEST RESOURCE, HOWEVER, IS MANAGERIAL AND TECHNICAL

LEADERSHIP. ALTHOUGH ITS FOREIGN EXCHANGE EARNINGS HAVE QUADRUPLED IN THE PAST FOUR YEARS AND ITS LOW DEBT SERVICE RATION MAKES IT AN ATTRACTIVE CUSTOMER FOR FOREIGN LENDERS, ECUADORIAN GOVERNMENTS HAVE HAD GREAT DIFFICULTY INPUTTING TOGETHER THE PROPER MIX OF POLICIES, PROJECTS, AND IMPLEMENTATION TO MAKE A MEANINGFUL START ON THE COUNTRY'S SERIOUS DEVELOPMENT PROBLEMS. OUR ANALYSIS OF ECUADOR'S ECONOMIC DEVELOPMENT PROBLEM IS CONTAINED IN REFTEL.

3. THE GOE HAS, IN THE LAST SEVERAL YEARS, COME INCREASINGLY TO RECOGNIZE THE NEED FOR BETTER COORDINATION AMONG ECONOMIC DEVELOPMENT DONORS AND MORE SYSTEMATIC PLANNING OF ITS TOTAL DEVELOPMENT EFFORT. IT HAS TAKEN SEVERAL POSITIVE STEPS IN THIS REGARD. FOR EXAMPLE, IT HAS CREATED AND ADEQUATELY STAFFED AND FUNDED A PROJECT DEVELOPMENT UNIT,

FONAPRE, AND IS IN THE PROCESS OF GIVING FORM AND LIFE

TO FONADE, THE NATIONAL DEVELOPMENT FUND (WHICH RECEIVED NEARLY A THIRD OF GOE PETROLEUM REVENUES). THE NATIONAL PLANNING BOARD, UNDER THE LEADERSHIP OF THE FORMER CENTRAL BANK DIRECTOR, ECONOMIST ALFONSO ARCOS, HAS MOVED AWAY FROM DOCTRINAIRE LEFTIST PREACHING TO A MUCH MORE PRACTICAL APPROACH OF PLANNING PROJECT BY PROJECT.

4. MORE RECENTLY, THE GOE HAS REQUESTED THE IBRD TO FORM A CONSULTATIVE GROUP TO COORDINATE FOREIGN BORROWING AND PROJECT DEVELOPMENT. THIS MISSION BELIEVES THAT THE PROPOSED CONSULTATIVE GROUP IS A NECESSARY STEP AT THIS POINT IN THE EVOLUTION OF ECUADOR'S DEVELOPMENT PROCESS.

ECUADOR'S ASSISTANCE NEEDS ARE LARGER THAN SHE HERSELF PERCEIVES, ESPECIALLY IN THE AREA OF COORDINATION OF PROGRAMS WITHIN A CONCEPTUALLY WELL-DEVELOPED PLAN OF ACTION. THAT IS, THE NEEDS ARE NOT ONLY FINANCIAL BUT

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MANAGERIAL.

WE ARE OF THE OPINION THAT THE WORLD BANK, WHICH HAS TENTATIVELY INDICATED ITS WILLINGNESS TO LEAD A CONSULTATIVE GROUP, IS THE BEST INSTITUTION TO HELP ECUADOR UNDERTAKE THIS TASK.

5. BY HELPING ECUADOR TO DEVELOP THE CAPABILITY TO MANAGE ITS EXTERNAL BORROWING EFFORT, AN IBRD CONSULTATIVE

GROUP CAN BRING TO BEAR ON THE GOE, IN AN INSTITUTIONALIZED SETTING, EXTERNAL INFLUENCES WHICH SHOULD IMPROVE ECONOMIC POLICIES AND PROJECT DEVELOPMENT. SUCH IMPROVED POLICIES AND ECONOMIC MANAGEMENT ARE DEFINITELY IN THE INTEREST OF

THE U.S. AN ECUADOR THAT IS GROWING DYNAMICALLY AND MORE EVENLY WILL BETTER SERVE U.S. DEVELOPMENT, HUMANITARIAN,

INVESTMENT, AND TRADE INTERESTS -- AND, AS IMPORTANT, WILL BETTER SERVE U.S. POLITICAL OBJECTIVES. THE CURRENT MILITARY JUNTA IS ATTEMPTING TO TURN THE GOVERNMENT BACK TO CIVILIANS AND RESTORE DEMOCRATIC PROCESSES. ON A CONTINENT DOMINATED BY REPRESSIVE REGIMES, SUCH A DEVELOPMENT IN ECUADOR IS DEFINITELY IN THE U.S. INTEREST. PROBABLY THE LARGEST SINGLE OBSTACLE TO A SMOOTH TRANSITION TO CIVILIAN RULE, OR ITS CONSOLIDATION, IS THE SEEMING INABILITY OF WHATEVER GOVERNMENT IS IN POWER TO MANAGE THE ECONOMY

AND PROMOTE DEVELOPMENT. A DEMOCRATIC ECUADOR THAT IS SOLVING ITS PROBLEMS AND MEETING ITS PEOPLE'S ASPIRATIONS SHOULD ALSO BE AN EASIER PARTNER FOR THE U.S. IN THE POLITICAL PROCESS OF DEALING WITH GLOBAL AND HEMISPHERIC INTERDEPENDENCE.

6. THE MISSION IS WELL AWARE THAT THERE ARE CERTAIN OBSTACLES AT THE PRESENT TIME TO UNQUALIFIED USG SUPPORT OF THE CREATION OF A CONSULTATIVE GROUP IN ECUADOR. THE PURPOSE OF THIS MESSAGE IS TO ESTABLISH THAT SUCH A GROUP IS IN THE U.S. INTEREST AND THEREFORE THAT THE USG SHOULD NOT ADOPT A MERELY PASSIVE ATTITUDE IN REGARD TO IT. THIS MEANS THAT STATE, TREASURY, AID AND OTHER ACTORS IN THIS MATTER SHOULD SEEK A POSITIVE ROLE FOR THE USG IN SEEKING

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SOLUTION TO THE PROBLEMS WHICH ARE OBSTACLES TO AN IBRD-CONSULTATIVE GROUP, SUCH AS THE ADA AND GULF CASES. BECAUSE OF THE "UNDERDEVELOPMENT" OF THE PUBLIC SECTOR HERE, THE VERY GRAVE PROBLEMS ASSOCIATED WITH THE MILITARY GOVERNMENT'S ATTEMPT TO RETURN TO A CIVILIAN DEMOCRACY,

AND BECAUSE OF THE SENSITIVITY OF THESE INVESTMENT CASES, A "POSITIVE US ROLE" MEANS TO A CONSIDERABLE EXTENT THE

PARTICIPATION OF THE USG IN THE SOLUTIONS OF THESE CASES, AS DISTINCT FROM SIMPLY PUTTING THE ENTIRE BURDEN ON THE FRAGILE SHOULDERS OF THE GOE. WE HOPE THAT THE AGENCIES CONCERNED WILL KEEP THIS IN MIND IN THE WEEKS AND MONTHS AHEAD AS THIS EMBASSY MAKES PROPOSALS TO WASHINGTON REGARDING THESE INVESTMENT PROBLEMS. IN THE

MEANTIME, WE URGE THAT THE USG MAINTAIN AT THE LEAST A  
SYMPATHETIC IF UNCOMMITTED POSITION ON THE ISSUE OF A  
CONSULTATIVE GROUP SO AS TO AVOID A CONFRONTATION WITH THE  
GOE WHILE WE ARE TRYING TO WORK OUT OUR BILATERAL PROBLEMS.  
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## Message Attributes

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